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C O N F I D E N T I A L SECTION 01 OF 04 ASHGABAT 000396

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TAGS: [PGOV](#) [EPET](#) [EINV](#) [TX](#) [RS](#) [IR](#) [CH](#)
SUBJECT: TURKMENISTAN: WINTERSHALL MANAGER PROVIDES RANGE
OF UPDATES ON ENERGY SECTOR DEVELOPMENTS

Classified By: Charge Richard Miles for reasons 1.4 (b) and (d).

11. (C) SUMMARY: German-based Wintershall's country manager recently provided a broad picture of the challenges and intrigues of doing business in the energy sector here. The manager described some of the complexities of interacting with Turkmen energy officials, most of whom cling tightly to old Soviet models of governance. He revealed that the Chinese company CNPC may not be all that worried about actually producing some gas in the near term, if it can potentially trade the delay for additional concessions here. The Russians are doggedly pursuing additional ventures here, but in spite of shared historical ties, will be limited in their involvement, he said. Surprisingly, it appears President Berdimuhamedov is moving forward on a deal with Iran that is contrary to the views of senior oil and gas officials. All of this seems to form a picture in which partnerships are unfolding in an unexpected way, and both regional neighbors and international companies continue to see expanding possibilities. END SUMMARY.

12. (C) A visiting scholar from the U.S.-based Center for Strategic and International Studies met on March 19 with Wintershall General Manager, Kal Sandhu, to learn more about how the offshore PSA-holder is doing. Sandhu said the company is partnered with Maersk, OMV and an energy subsidiary of Mittal Steel to explore and develop Caspian offshore blocks 11 and 12. He added that a three-year exploration phase is coming to an end for the blocks, where the water averages about 45 meters in depth.

13. (C) Sandhu said the business environment for his company is quite different here than it is in Russia. Russia, even in the early 1990s, knew what it was doing and had a very fast learning curve regarding how best to develop its hydrocarbon reserves. The learning curve in Turkmenistan, by comparison, has been very gradual because of the lack of education and expertise, as well as for reasons relating to the lack of trust here. Wintershall relies on support from

Deputy Chairman Tagiyev for resolving issues, so Sandhu puts effort into maintaining a good relationship with him, he said. But even at that level, he said barriers frequently arise because of the deep aversion to risk that is so pronounced in Turkmenistan. Wintershall would like to offer expansive education opportunities to Turkmen students, he noted, but he said the government appears to be wary of educating the population, even if it would raise prospects for more energy production.

THE DANGERS OF PRESIDENTIAL HIRINGS AND FIRINGS

14. (C) Sandhu said his contacts in the government have told him that when the President appoints a bureaucrat to an office, one cannot refuse the appointment. He added that firings, in their turn, are also very serious business. The former Director of the State Agency for the Management and Use of Hydrocarbons, Baymurat Muradov, was fired from his position in 2008, and is still at home without work. As a result of his firing, several of his children were expelled from university and his relatives lost their government posts. He said that although no firm information has emerged about the reasons for Muradov's firing, Sandhu believes that either Muradov was caught engaging in some form of corruption, or may have possibly made a faux pas during a 2008 presidential visit to Germany.

15. (C) Sandhu was among the representatives of German companies that hosted President Berdimuhammedov's trip to Germany, and said that during some of the formal dinners in

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the President's honor, Muradov was near the President, actively talking with some of the German representatives in English but not translating what they were saying. He speculated that the President was insulted by the perceived insubordination and removed him, although he had brought Muradov from the Health Ministry in 2007 because he had been a competent and loyal Deputy Health Minister. The Wintershall manager said he believed that all senior government officials are either jailed or put under house arrest when they get fired from their positions, because of the inherent threat that a pool of free, disgruntled elites would likely pose to the regime. (COMMENT: If it is true -- and we have no proof that it is -- that fired senior government officials are routinely arrested, this is an unwelcome holdover or reversion to a Niyazov practice. END COMMENT.)

TURKMEN GOVERNMENT STILL FUNCTIONING THE 'SOVIET WAY'

16. (C) Sandhu expressed frustration with the fact that Turkmen oil and gas bureaucrats still cling to old and counterproductive Soviet practices. He said that senior officials, like in the Soviet period, are always ambitious, and simply order oil and gas production increases while leaving the ministries to somehow make it happen. In this system, no one in the ministries can speak truth to power and say it isn't possible and explain why, he said. The publicly outlined national oil and gas development strategy sets ambitious goals for oil and gas production by 2010, 2015, and 2030, but they are not achievable, he said.

IS CNPC PLAYING THE TURKMEN?

17. (C) Sandhu said that from what he has heard, CNPC is almost exclusively focused on its construction contract for the Turkmenistan-China pipeline, and that it had been concluded with the government as a domestic, rather than an international contract, meaning that any disputes would be resolved in Turkmen courts. The PSA agreement that CNPC signed in late 2007 for its expansive work along the right bank of the Amu Darya, however, was concluded as an international contract with Turkmen State Gas Concern. Having an international agreement gives CNPC the capacity, if needed, to seek international arbitration to resolve serious

disputes, he said.

18. (C) Sandhu assessed that since it appears that CNPC is not moving very quickly on the exploration and development of the PSA, it is not going to produce sufficient gas to meet the terms of the agreement in the coming 1-1 1/2 years. When CNPC fails to produce its share of the gas to go into the new pipeline, the terms of the contract stipulate that the production shortage will come from the Turkmen State Gas Concern, he said. Sandhu predicted that when the Chinese come to Turkmen Gas and begin clamoring for additional supplies that Turkmengas cannot deliver, heads will role at Turkmengas. He assessed that the Chinese would then seek additional concessions as remuneration for Turkmenistan's failure to provide the agreed-upon quantity of gas.

RUSSIA -- THE DEVIL THEY KNOW

19. (C) The Wintershall manager opined that the Turkmen prefer doing business with the Chinese and the Russians these days. He said the Turkmen still identify with the Russians in many respects and understand the Russian bureaucracy. The Chinese, he said, have learned how to predict what the Turkmen will want, and they give it to them. Some Turkmen officials have commented that they do not trust Iran or

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Azerbaijan, however, and Sandhu expressed the belief that many Turkmen bureaucrats are reluctant to do business with those two countries.

110. (C) It could be the Russians, however, who cause problems for the Turkmen in the coming year, if the Turkmenistan Government doesn't understand that global gas prices are expected to drop this year, he said. The Russians could cut back their purchases of Turkmen gas, which would result in contract penalties. However, Sandhu speculated that receiving penalty fees instead of gas payments would still represent a loss of income for Turkmenistan. Sandhu said that although the Turkmen and Russians get along, it does not appear that the Turkmenistan Government wants Russia to establish itself in the upstream, since it dominates the downstream, meaning pipeline infrastructure. He asserted that Gazprom would be denied an equity gas role in the upstream.

DUTCH COMPANY LOST PSA AFTER IRAN DEAL PUBLICIZED

111. (C) Sandhu said that a Netherlands-based oil company had been working for several years on a proposal to develop the relatively deep offshore block 27, located in an area of the Caspian that both Turkmenistan and Iran claim. (NOTE: Berlanga Holding BV has a representative office in Ashgabat. The energy exploration and development company has been around since 1994, and seems to operate only in Central Asia. It has major holdings in Kazakhstan, and has been seeking projects in Uzbekistan and Turkmenistan for the last several years, according to its website. END NOTE.)

112. (C) Sandhu revealed that Berlanga Holding Turkmenistan BV had been negotiating for a PSA in the southern block when President Berdimuhamedov made his official visit to Tehran in February. As the trip concluded, Iranian press announced a major bilateral deal to develop South Yoloten. Sandhu said that Berlanga was immediately told its proposal for block 27 would be rejected, because of Turkmen concerns that work in the block would irritate its new energy partner. State Agency for the Management and Use of Hydrocarbons Director, Yagshygeldy Kakayev, and Deputy Chairman for Oil and Gas, Tachberdy Tagiyev, had not wanted to sign the deal with Iran, but Sandhu said they had indicated to him that it was the President's will, so it would happen regardless of their views.

FOREIGN COMPANIES TO PROVIDE SOME NEW GAS

¶13. (C) Sandhu said that onshore company Burren Energy and the offshore foreign PSA holders, who are focused on oil extraction, are getting closer to a point where they will be able to deliver their associated gas to Turkmen gas. He said that in about five years, Burren and the offshore fields could be producing as much as 15 bcm per year that would feed the growing Russian demand, if there are no problems. Petronas was expecting to deliver 6 bcm per year to Turkmen gas by 2011, and anticipated it would go up to 14 bcm per year by 2014. Dragon Oil is planning produce at least several bcm per year by 2011, and Burren is expecting to produce about 2 bcm per year, he said. He observed that the gas infrastructure in the Turkmenbashi area is in very bad condition, and will need to be refurbished.

¶14. (C) COMMENT: Sandhu's comments provide yet another window on the complexities of the oil and gas sector here, with regional partners competing for their piece of the pie and an incapable and risk-averse government struggling to "fulfill the plan." Although his comments parallel those of

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others who doubt production will be sufficiently ramped up in coming years to meet the country's export obligations, both commercial entities and regional neighbors are still optimistic and willing to continue circling Turkmenistan as they wait for opportunities to present themselves. END
COMMENT.
MILES